

Message Text

SECRET

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ACTION SS-25

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P 171253Z FEB 75

FM AMEMBASSY ALGIERS

TO SECSTATE WASHDC PRIORITY 1904

AMEMBASSY TEHRAN PRIORITY

INFO AMEMBASSY JIDDA

AMEMBASSY KUWAIT

S E C R E T SECTION 1 OF 2 ALGIERS 0445

EXDIS

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TEHRAN FOR ROBINSON

E.O. 11652: GDS

TAGS/ OVIP (ROBINSON, CHARLES W.)

SUBJ: VISIT OF UNDER SECRETARY ROBINSON: ALGERIAN STRATEGY

1. WITH DEPARTURE OUR VARIOUS CODELS WE HAVE BEGUN
CONCENTRATE ON PREPARATIONS FOR UNDER SECRETARY
ROBINSON'S VISIT TO ALGIERS. NO APPOINTMENTS SET
OR INVITATIONS ACCEPTED YET, BUT WE HOPE PROGRAM OUTLINED
OUR 0365 WILL BE FOLLOWED. TIME AVAILABLE IN ALGIERS
LIMITED AND THIS MEANS CROWDED SCHEDULE. OUR TIME FOR
BRIEFING LIKELY BE SHORT, AND FOLLOWING IS WRITTEN
AS PRE-ARRIVAL BRIEFING.

2. GENERAL - ALGERIA CONTINUES ENJOY POLITICAL
STABILITY UNDER ESSENTIALLY ONE-MAN RULE OF PRESIDENT
BOUMEDIENE. POPULACE NOT NOTABLY ENTHUSIASTIC ABOUT
AUSTERE ECONOMY, AND FEW PEOPLE FIRED WITH PRO-REGIME
ZEAL, BUT DISAFFECTION SEEMS BE WELL-CONTAINED WITH
MINIMAL USE OF REPRESSION. POLICE AND ARMY MUCH LESS IN
EVIDENCE HERE THAN IN MOROCCO OR EGYPT, FOR EXAMPLE.
REGIME'S NUMBER ONE GOAL IS, IN BOUMEDIENE'S OWN WORDS,
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TO OVERCOME "BACKWARDNESS" AND TO BECOME INDUSTRIALIZED

STATE WITH EUROPEAN STANDARD OF LIVING. PRESENT FORCED-DRAFT INDUSTRIALIZATION MARKED BY MANY ERRORS AND MUST WASTE BOTH IN PLANNING AND IN EXECUTION, BUT IS IMPRESSIVE NEVERTHELESS. MANY FOREIGN OBSERVERS PESSIMISTIC BECAUSE, AMONG OTHER THINGS, INVESTMENT RATE IN NON-CONSUMER INDUSTRIES TOO HIGH TO BE SUSTAINED, AGRICULTURE IS BEING NEGLECTED, NOT ENOUGH IS BEING DONE ABOUT UNEMPLOYMENT (ESTIMATED AT 25 PERCENT), AND MANUFACTURING PLANTS BEING BUILD WITHOUT MUCH REGARD THEIR ECONOMIC VIABILITY. IN SHORT, INDUSTRIALIZATION PROGRAM IS TOO AMBITIOUS. BY THIRD WORLD STANDARDS, HOWEVER, ALGERIANS LOOK GOOD. AMERICAN BUSINESSMEN CONTINUE BE BULLISH ABOUT LOCAL PROSPECTS AND ACTIVELY SEEKING CONTRACTS HERE, THOUGH THERE SEEMS TO BE SOME RECONSIDERATION OF BENEFITS OF DOING BUSINESS IN ALGERIA AT THIS TIME.

3. FINANCIAL BIND - DEVELOPMENT EFFORT TO DATE HAS BEEN FINANCED BY OIL AND GAS REVENUES, WHICH WERE ESTIMATED AT DOLLARS 3.5 BILLION IN 1974. IN 1973 ALGERIA BORROWED ABOUT DOLLARS 2 BILLION, INCLUDING A LARGE PART OF THE DOLLARS 600 MILLION WHICH EX-IM BANK HAS LOANED HERE TO DATE. PRESENT FOUR YEAR PLAN CALLS FOR EXPENDITURES OF DOLLARS 26 BILLION. EVEN AT LAST YEAR'S PRICES AND PRODUCTION FIGURES, THIS WAS GOING TO MEAN THAT ALGERIA WOULD BECOME DEFICIT COUNTRY IN 1975. OIL PRODUCTION IS NOW DOWN ABOUT 18 PERCENT, HOWEVER, BECAUSE OF DROP IN DEMAND AND PRODUCTION PROBLEMS, AND MARKET PRICE HAS DROPPED FROM DOLLARS 14 A BARREL TO DOLLARS 12. TOGETHER WITH WORLD INFLATION RATE, THIS MEANS ALGERIANS WILL BE SHORT SOME DOLLARS 2-3 BILLION OF WHAT THEY NEEDED FOR PROJECTS THIS YEAR AND THAT THEY WILL EITHER GO FURTHER INTO DEFICIT IN 1976 AND 1977 OR HAVE TO CUT BACK DEVELOPMENT PLANS. LNG, WHICH IS MORE IMPORTANT RESOURCE THAN OIL IN ALGERIA, HAS NOT INCREASED IN PRICE AND ALGERIANS HAVE NOT BEEN ABLE TO CONCLUDE ANY CONTRACTS AT HIGHER PRICE BASED ON BIU VALUE OF OIL, WHICH THEY WERE DISCUSSING LAST YEAR. FURTHER, ALGERIANS HAVING TROUBLE WITH LIQUEFACTION PLANTS AND CANNOT MEET DEMAND. SKIKDA LNG COMPLEX, FOR INSTANCE,

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NOW AT TWO-THIRDS OF CAPACITY AND NEW ANGLO-AMERICAN UNIT THERE WILL NOT COME ON STREAM BEFORE END OF YEAR. WHILE GAS MAY BE ULTIMATE SOLUTION, ALGERIANS HAVE BEEN COUNTING CHICKENS BEFORE THEY HATCHED, AND THEY HAVE IMMEDIATE PROBLEM OF FOREIGN EXCHANGE REVENUE. TO CUT BACK ON DEVELOPMENT, NO MATTER HOW WISE OR NECESSARY ECONOMICALLY, WILL SERIOUSLY EMBARRASS REGIME, WHICH HAS CALLED ON EVERYONE TO SACRIFICE FOR REVOLUTION AND

CONFIDENTLY PREDICTED BETTER TIMES SOON. INTERNAL
OPPOSITION TO OVERLY AMBITIOUS PLANS HAS BEEN VOICED IN
PAST, AND PEOPLE LIKE MINISTRY OF INDUSTRY AND ENERGY
BELAID ABDESSELAM, WHO HAS BEEN DRIVING FORCE OF
HYDROCARBON BASED INDUSTRIALIZATION, MAY BE IN TROUBLE
IF NOW THEY HAVE TO EAT THEIR WORDS.

4. THE THIRD WORLD - TOGETHER WITH DEVELOPING THEIR OWN
COUNTRY ALGERIANS CALLING FOR REORDERING OF WORLD
ECONOMY SO AS TO IMPROVE POSITION OF DEVELOPING COUNTRIES
VIS-A-VIS DEVELOPED. FOMIN BOUTEFLIKA CALLED FOR THIS
REORDERING AT UNGA IN 1972, BUT IT REALLY CAUGHT ON WHEN
BOUMEDIENE ENLARGED ON THIS THEME AT SPECIAL UNGA LAST
SPRING. IT SOUNDED INITIALLY LIKE ATTEMPT TO DEFLECT
LDC ANGER AT INCREASED OIL PRICES AWAY FROM OPEC AND
TOWARDS INDUSTRIALIZED COUNTRIES. THAT MAY HAVE BEEN ITS
ORIGINAL PURPOSE, BUT BOUMEDIENE SPEAKS OF REORDERING
WITH EVERY INDICATION OF CONVICTION, AND ALGERIA IS
CERTAINLY DEVOTING A MAJOR POLITICAL EFFORT TO THE TASK.
JUDGING FROM THE COMMUNIQUE FROM DAKAR, THEY ARE HAVING A
GOOD DEAL OF SUCCESS.PARKER

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5. THE DIALOGUE WITH US - ALTHOUGH BOTH WE AND
ALGERIANS TALK ABOUT OUR MUTUAL DESIRES FOR CONSULTATION
AND DIALOGUE, WE ARE EMBARKED ON COURSES WHICH THREATEN
COLLIDE SOME DAY. INDEED, ACCORDING ONE SENIOR ALGERIAN
OFFICIAL (SECRETARY INDUSTRY AND ENERGY MURAD CASTEL) WE
ALREADY IN CONFRONTATION. USG IS ORGANIZING

CONCERTED CONSUMER ACTION TO BRING DOWN OIL PRICES AND SUGGESTS OFFERING OPEC A FLOOR PRICE BELOW CURRENT MARKET LEVELS IN EXCHANGE FOR STABILITY OF SUPPLY. USG APPARENTLY NOT PREPARED TO DISCUSS ANYTHING BUT OIL AT FRENCH-SPONSORED PRODUCERS CONSUMERS CONFERENCE. ALGERIANS CONSIDER LOWERING PRESENT OIL PRICES BEYOND DISCUSSION AND MAINTAIN ENERGY QUESTIONS MUST BE DISCUSSED IN CONTEXT LARGER PROBLEMS. THEY SAY THEY ARE NOT PREPARED TO DISCUSS OIL ALONE. THEY ARE ORGANIZING PRODUCERS PLUS LDC'S FOR CONCERTED ACTION TO IMPROVE THEIR TERMS OF TRADE, TO PUCH AHEAD WITH INDUSTRIALIZATION AND TO FORCE INDEXATION OF COMMODITY PRICES WITH THOSE OF INDUSTRIAL GOODS.

6. THE ROBINSON VISIT

A. OUR ORIGINAL INSTRUCTIONS (STATE 027064) ARE THAT UNDER SECRETARY ROBINSON IS TO DISCUSS AN AGENDA OF POSSIBLE PROGRAMS AND JOINT ACTIONS CONCENTRATING ON THE FIRST FOUR OF THE SIX POINTS IN THE SECRETARY'S NATIONAL PRESS CLUB SPEECH. HOWEVER, THESE POINTS ARE NOT THE MOST IMPORTANT ISSUES TO THE ALGERIANS. POINTS 1 AND 2

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(RECYCLING AND INVESTMENT POLICIES) ARE RELEVANT TO ALGERIA, WHICH HAS NO MONEY TO RECYCLE, ONLY TO EXTENT WE CAN TALK SAUDIS OR KUWAITIS INTO RECYCLING MONEY HERE AND TO OTHER LDC'S. POINT 3, HELPING ALGERIA FIND PRDUCTIVE USE FOR ITS OWN WEALTH, WOULD BE RELEVANT IF ALGERIANS HAD SURPLUS TO USE, BUT ALL OF THEIRS IS ALREADY COMMITTED AND THEY HAVE SHOWN NO RECEPTIVITY TO ADVICE FROM US ON HOW TO USE IT. POINT 4, JOINT PRODUCER-INDUSTRIALIZED CONSUMER EFFORTS TO ASSIST NON-PRODUCING LDC'S, IS OF LIMITED RELEVANCE. WE CAN CONCEIVE OF A SITUATION IN WHICH WE AND ALGERIANS WOULD COOPERATE IN MULTILATERAL FRAMEWORK TO HELP LDC'S, BUT ALGERIANS WILL ARGUE THAT WAY TO DO THIS IS TO REORDER WORLD ECONOMY.

B. WHAT ALGERIANS CONSIDER MOST RELEVANT TO THEM IN PRESS CLUB SPEECH IS PORTION OUTLINING THE PROPOSED IEA STRATEGY AND PARTICULARLY PHASE 2: TRANSFORMING THE MARKET CONDISHIONS FOR OPEC OIL. OUR TALK OF INCREASED PRESSURE ON PRICES, OF POWERFUL PRESSURE TO WHICH NO CARTEL CAN BE INVULNERABLE, AND OF CONSERVATION GOALS WHICH WILL FORCE OPEC TO REDUCE PRODUCTION FURTHER, OR TO LOWER PRICES AS AMBITIOUS DEFENSE AND DEVELOPMENT PLANS GET UNDERWAY, SEEMS IMMEDIATELY RELEVANT TO THEM. IN FACT, THEY FEEL DIRECTLY MENACED AND THREATENED. AT A TIME WHEN THEY FEELING PINCH, WE ARE ORGANIZING CONSUMERS TO PUT ON MORE PRESSURE. TO ALGERIANS THIS SOUNDS LIKE

CONFRONTATION, WHATEVER WE MAY SAY ABOUT CONSULTATION,
AND THEY ARE GIRDING LOINS FOR CONTEST.

7. RECOMMENDATIONS - WE SUGGEST THAT MR. ROBINSON SPEAK
IN TERMS INDICATING WE UNDERSTAND ALGERIAN PROBLEMS AND
THAT WE AT LEAST WILLING TAKE THEIR PROPOSALS FOR
REORDERING WORLD ECONOMY SERIOUSLY AND NOT IGNORING THEM.
WE SUSPECT WE ARE GOING TO BE FORCED INTO DISCUSSING
THEM SOONER OR LATER AND WE SHOULD START PROBING
ALGERIAN'S IDEAS NOW, SINCE THEY ARE SELF-APPOINTED
THIRD-WORLD SPOKESMAN. SPECIFICALLY, WE SUGGEST APPROACH
SOMETHING ALONG FOLLOWING LINES:

A. WE UNDERSTAND ALGERIAN CONCERN ABOUT PRESSURES ON
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PRICES AND PRODUCTION WHICH WILL RESULT FROM CONSERVATION
EFFORTS. WE ALSO UNDERSTAND, HOWEVER, THAT EVERYONE,
INCLUDING PRESIDENT BOUMEDIENE, IN AGREEMENT THAT IT IN
WORLD INTEREST FOR INDUSTRIALIZED NATIONS TO REDUCE DEMAND
ON FINITE PETROLEUM SUPPLIES. INEVITABLE RESULT MAGNIFIED
BY DEPRESSION AMONG CONSUMER COUNTRIES IS GOING TO BE
PRESSURE ON PRICES. WE WARNED OPEC MEMBERS IN BEGINNING
THAT THEIR FOUR-FOLD PRICE INCREASE WOULD UPSET WORLD
ECONOMY AND DRIVE CONSUMERS TO SEEK OTHER SOURCES, AND THAT
IS WHAT IS HAPPENING.

B. WE REGRET PROBLEMS ABOVE MAY CAUSE ALGERIA, AND
CERTAINLY HAVE NO INTENTION HARM THAT COUNTRY, AS INDICATED
BY CONTINUED GEREROUS ATTITUDE EX-IM BANK AND OUR
WILLINGNESS EXPAND ECONOMIC COOPERATION. GIVEN SPECIAL
CIRCUMSTANCES THIS COUNTRY, AND OTHER OPEC MEMBERS WITH
LIMITED INCOME, SUCH AS NIGERIA, OPEC MIGHT AGREE THAT
PRODUCTION CUTS BE ABSORBED BY RICHER OPEC MEMBER STATES.

C. WE UNDERSTAND ALGERIAN AND LDC DESIRE DISCUSS
RANGE OF BASIC COMMODITIES AND NOT JUST OIL, BUT COMMODITY
MARKETING EXTREMELY COMPLEX AND WE DO NOT THINK
DISCUSSION OF URGENT ENERGY PROBLEMS SHOULD BE DELAYED
ANY LONGER. WE ARE DISCUSSING COMMODITY ARRANGEMENTS IN
OTHER SPECIAL FORUMS--COFFEE, TIN AND WHEAT, FOR EXAMPLE,
WE ARE PREPARED TO DISCUSS OTHER COMMODITIES BUT
EXPERIENCE SHOW DETAILED EXPERTISE NEEDED AND
NEGOTIATIONS ARE SLOW. THEREFORE WE WISH TO SEE EARLY
PROGRESS ON THE ORIGINAL FRENCH/SAUDI PROPOSAL FOR A
TRIPARTITE CONFERENCE ON ENERGY MATTER.

8. ALGERIANS MAY ALSO RAISE FINANCIAL QUESTIONS, AND WE HOPE MR.
ROBINSON WILL BE PREPARED DISCUSS THEM. PARKER

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